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Director of
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IRAN: Situation Report

//Tehran was mostly peaceful yesterday, but some terrorist incidents were reported and the violence that broke out in Esfahan on Monday is still going on. The continuing strike by oil workers has prevented an improvement in the oil production and export situation.//

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Troops, conspicuously absent in Tehran during the demonstrations on Sunday and Monday, were back patrolling the streets yesterday. Most shops in northern and central Tehran were open, and the airport resumed normal service. Primary schools are expected to reopen today.

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Both sides are continuing to claim victory for the mostly peaceful Tehran demonstrations. Extremists are talking of returning to the streets, however, and Army hardliners are calling for a firm crackdown.

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//Several terrorist incidents have been reported throughout the country. The most serious was at the Lavizan military complex in Tehran where several terrorists were reported to have shot up the dining hall of the Imperial Guard. Several Guard officers were killed before the terrorists were routed.//

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//The violence in Esfahan began late Monday when demonstrators attacked banks, movie houses, hotels, and restaurants. Troops finally moved in but could not prevent widespread destruction. Military officers in Esfahan are now saying that the demonstrators violated their agreement to refrain from violence and that the military will act forcefully to prevent further disorders. There are reports that soldiers are smashing shop windows displaying Ayatollah Khomeini's picture and that anti-Shah forces are carrying out widespread looting and burning.//

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The US Embassy has accounts that the city is a "shambles."

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//Striking oil workers have not returned to work and they are unlikely to do so for at least several days.

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[redacted]

Production is hovering just above the 1 million barrel-per-day mark; exports are about half that. Khomeini has threatened to have his political supporters in Iran halt oil deliveries and cancel export contracts with the US and other countries that continue to support the Shah.//

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UK: Callaghan's Challenge

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//UK Prime Minister Callaghan's minority Labor government faces another challenge in Parliament today--the most serious since it narrowly survived the vote on the Queen's speech early last month. The government is expected to scrape through again; if it does not, the Conservative challenge to Callaghan's economic policies could lead to the government's resignation and a general election.// [redacted]

//The government has introduced a motion seeking general Parliamentary support for its economic policies, while the Conservatives have offered an amendment condemning the government for its use of sanctions against firms that breach the 5-percent wage increase guidelines. A defeat on either measure would seriously undercut the government's economic initiatives and put pressure on Callaghan to resign.// [redacted] 25X1

//Even if defeated in Parliament, Callaghan could try to carry on, although he probably would have to seek a formal vote of confidence. In light of these possibilities, the government's original motion seems of questionable wisdom, unless Callaghan feels the need to defend his record at the polls.// [redacted] 25X1

//As with the vote on the Queen's speech, the government's chances depend on a handful of votes and abstentions. Because the issue could lead to a confidence vote, Callaghan should survive; the minor parties do not want an election now and the Labor Party will be present in force.// [redacted] 25X1

//Even the Conservatives may be satisfied simply to embarrass the government rather than to bring it down. By showing how tenuous Callaghan's majority is on an issue so critical to the government, the Tories would keep the pressure on without forcing an election that would be too close to call and for which they would prefer to be better prepared.// [redacted]

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ITALY: Parliamentary Debate

The Italian Parliament is scheduled to resume debate today on the government's decision to join the European Monetary System. Debate was suspended following Prime Minister Andreotti's announcement yesterday in order to give the parties more time to prepare positions. His decision has heightened political tensions, but party leaders appear reluctant to permit collapse of the government over the monetary issue.

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Before the debate, Andreotti will attempt to smooth over differences in a meeting with leaders of the five parties supporting his government in Parliament. Most Christian Democrats, Social Democrats, and Republicans support Andreotti's decision, but the Socialists and Communists apparently still have reservations. The Socialists have argued for a phased entry into the monetary system, and the Communists have insisted that membership would be disadvantageous for the nation without more EC development aid.

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We still have no details on Andreotti's contacts Monday with West German Chancellor Schmidt and French President Giscard. Speculation continues, however, that Andreotti may have obtained some assurance of increased support from Paris and Bonn and intends to use this to ease reservations about the economic consequences of Italian participation.

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US Embassy sources in Rome say the government will not call for a confidence vote after the debate and that none of the parties will insist on one. Christian Democratic officials say the debate may end with a vote on a resolution designed to permit the Communists to save face; they would be able to vote in favor of the first part--reiterating Italy's commitment to European unity--while abstaining or voting against a second part specifically approving the government's stand on the monetary system.

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PORTUGAL: Government Program

Portuguese Prime Minister Mota Pinto's nonparty government got through its first test yesterday when its program was passed by the Assembly. The nature of the vote makes it clear, however, that the government will face major problems in surviving until the election in 1980. [redacted]

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The new government is the most conservative since the 1974 revolution and is the first since then not to have a leftist member. The Communists voted to reject the program and were opposed by the small Center Democratic Party and the larger Social Democratic Party. Most Socialists abstained. [redacted]

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In spite of this tenuous support in the Assembly, Mota Pinto made it clear that because of the country's economic difficulties, his government does not plan to be a mere caretaker. The program indicates that the government will largely maintain the economic policies of its two immediate predecessors. Although the program's 25X1 vague wording will permit some flexibility, the conservative cast of the cabinet suggests that at some time Mota Pinto may be confronted by Socialist opposition. [redacted]

The Socialists--the largest party in the Assembly--will therefore be the key to determining the government's staying power. The other two democratic parties would find it difficult to join with the Communists in overturning Mota Pinto and do not have enough strength to carry out their own censure motion. [redacted]

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Socialist leader Soares, who is not eager for the election that might result from Mota Pinto's fall, told the US Ambassador that he had unexpectedly easy going with his party's left wing in getting a decision to abstain. He appears willing to cooperate with the government when necessary, while generally acting as a selective opposition party. Still smarting from heavy losses 25X1 to the Communists and Social Democrats in two recent municipal elections, Soares hopes to take advantage of a spell outside the government to regain lost ground. [redacted]

Both Soares and Mota Pinto have an interest in avoiding a clash. Soares told the Ambassador that his party will not cause problems if the government pursues policies

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not dramatically opposed to those of the Socialists. Mota Pinto could in fact reach many of his goals by applying existing laws, many of which were initiated by Soares' government. [redacted]

Several issues, however, are likely to arise in the next few months--the budget, labor legislation, and agrarian reform, for example--on which grass-roots sentiment will make Socialist abstention difficult. Thus it seems a good possibility that the Socialists will join with the Communists to vote down the government some time before the next scheduled election in 1980. [redacted]

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ANGOLA: Prospects for the Railroad

The Angolan Government faces numerous economic and logistic problems in fulfilling its commitment to reopen all of the Benguela Railroad. The most serious immediate threat to the rail line, however, comes from insurgents of the National Union for the Total Independence of Angola who apparently are determined to keep it from operating completely. The government probably cannot restore full operations in the short to medium term.

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[redacted] UNITA has stepped up its attacks against the railroad--much of which passes through territory in which the insurgents continually operate. We believe UNITA will retain the capability to attack trains or to sabotage the line at will along large sections of the 1,347-kilometer route.

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The insurgents already have stockpiles of military supplies inside Angola. UNITA probably believes that its credibility--both in Luanda and internationally--would be damaged if it did not impede railroad operations. UNITA leader Savimbi is concerned over the Angolan Government's recent diplomatic and political gains and may opt to inflict heavier damage on the railroad if he believes his position is deteriorating.

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Continued UNITA attacks on the rail line could lead Angolan President Neto to charge that either Zairian President Mobutu or Zambian President Kaunda is aiding the rebels, thus jeopardizing the recent Angolan-Zairian rapprochement.

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We doubt that the Benguela Railroad can be restored to full use until Luanda reaches a modus vivendi with UNITA or defeats the insurgents militarily--neither of which appears likely in the near future.

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BRIEF

Italy

The Italian A129 lightweight antitank helicopter now under development could become one of the best non-US antitank helicopters on the market in the mid-1980s. The Agusta aircraft firm has completed the design of the A129, and the Italian Government has evidently funded construction of three prototypes. The first test flight is to take place in 1981.

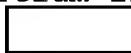
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The A129 could have a design weight as low as 3,300 kilograms. Antitank missiles are to be its primary armament. The manufacturer is reportedly also considering a gunship variant to be armed with a 30-mm rapid-fire cannon, which would be well suited to air-to-air combat and could also be used in an antiarmor role.

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The company, Italy's major helicopter manufacturer, currently produces and markets worldwide a popular utility helicopter of its own design, makes under license several types of US-designed Bell and Sikorsky helicopters, and runs a consortium licensed to build Boeing Vertol CH-47 helicopters.

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FEATURE ARTICLE

ARGENTINA-CHILE: Background of Dispute

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The dispute between Argentina and Chile over the Beagle Channel and related territorial claims is typical of many South American boundary problems that stem from early, ambiguously worded agreements and treaties formulated before accurate maps were available. Recent efforts at negotiation and arbitration have failed, largely because neither side is prepared to accept any compromise on the major issues.

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The Beagle Channel serves as an alternate route to the Strait of Magellan and to the course around Cape Horn for travel between the Atlantic and the Pacific Oceans. A treaty negotiated in 1881 stipulated that the boundary between Argentina and Chile should run north-south through Tierra del Fuego, dividing Isla Grande into two parts, with Argentina getting the eastern part and Chile the western part. All islands along the Atlantic coast were to belong to Argentina; those south of the Beagle Channel as far as Cape Horn and all along the Pacific coast were to belong to Chile.

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The Chileans soon claimed that the north-south line dividing Isla Grande was to stop at the northern shore of the Beagle Channel, so that the channel itself as well as all territory to the south belonged to Chile. The Argentines countered that the north-south line reaches midchannel and that a portion of the channel belongs to them. The Chileans also held that the channel extends eastward as far as Cabo San Pio, making the small islands of Picton, Lennox, and Nueva theirs; the Argentines claimed that the channel turns southward to the west of Picton and Lennox, and the islands are, therefore, Argentine.

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Picton, Lennox, and Nueva have no more than a dozen or so Chilean residents and no Argentines. With the possible exception of some nitrate deposits, they contain no known mineral or other resources of significance.

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In recent years, however, the importance of Tierra del Fuego has grown. Oilfields and enormous sheep ranches occupy the northern part of the region. In the south, Ushuaia, Argentina, has grown to a town of 6,000 inhabitants, with an airfield, a naval base, a hydro-electric plant, and a road that allows access to the northern part of the island. [redacted]

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Chile maintains a small naval base at Puerto Williams, south of the Beagle Channel on Isla Navarino. The town has an airstrip, a radio station, a hotel, and a civilian population of about 700. [redacted]

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A series of incidents, including one in 1967 in which a Chilean PT boat was fired at by an Argentine patrol ship, led Chile to seek British arbitration of the lingering channel dispute. Argentina rejected the idea but signed a treaty in 1972 submitting the claim to the International Court of Justice. The Court's verdict would go to the British for approval or disapproval.

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In May 1977, the Court decided that the Beagle Channel should be divided between the two countries and the disputed islands awarded to Chile. Implementation of the decision, which was accepted by the British, was set for February 1978. In December 1977, however, Argentina--which had already indicated it would not accept the Court's ruling--began a press campaign and a number of economic and military moves to prompt concessions from Chile. [redacted]

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Presidents Videla and Pinochet met in Mendoza, Argentina, in January 1978 and in Puerto Montt, Chile, in February and signed agreements creating a joint commission and outlining a phased negotiating process. The first phase ended in April without any significant progress. [redacted]

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In the second phase of negotiations, attention shifted away from the islands in the mouth of the Beagle Channel to a number of smaller islands to the south, including Evtout, Barnevelt, and Hornos. Argentina wants a boundary line that would run through these islands before the line turns south along the Cape Horn meridian or, better yet, a boundary that would place one or more

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of the islands entirely in Argentine territory. Intrusion of the Chileans into the Atlantic is resented by the Argentines, who feel that it breaks a gentlemen's agreement between the two countries that Argentina should be an Atlantic power and Chile exclusively a Pacific power. [redacted]

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Argentina is particularly concerned about the effect the Court's awards to Chile might have on control of ocean resources; both countries claim sovereignty over resources within 200 miles of the coast. Continental shelf petroleum and coastal fisheries are the resources of greatest interest, but the value and the extent of these in the area are unknown. [redacted]

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An additional Argentine concern is that the Court ruling will adversely affect Argentina's Antarctic claim, which overlaps that of Chile. Argentina presumably fears that any extension of Chilean territory eastward into the Atlantic will lend weight to Chilean claims to territory directly to the south on the Antarctic Peninsula.

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